

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Veterans Canteen Service's Financial Statements For The Year Ended September 30, 1983

GAO examined the financial statements of the Veterans Canteen Service for the year ended September 30, 1983. The examination was made pursuant to 38 U.S.C. 4207 and in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Service as of September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548


B-114818

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the financial statements of the Veterans Canteen Service of the Veterans Administration (VA) for the year ended September 30, 1983. Our examination was made pursuant to the provisions of 38 U.S.C. 4207 and in accordance with generally accepted government auditing standards.

The Veterans Canteen Service was created in 1946 (38 U.S.C. 4201) to provide merchandise and services at reasonable prices to veterans in VA medical centers.

We are sending copies of this report to the Director of the Office of Management and Budget and to the Administrator of Veterans Affairs.


Comptroller General
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114818

To the Administrator of
Veterans Affairs

We have examined the statement of financial position of the Veterans Canteen Service as of September 30, 1983, and the related statements of operations, changes in financial position, and departmental operations for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Veterans Canteen Service as of September 30, 1983, and the results of its operations, changes in financial position, and departmental operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The financial statements of the Veterans Canteen Service for the year ended September 30, 1982, were not audited by us and, accordingly, we do not express an opinion on them.

A handwritten signature in black ink, reading "Charles A. Bowcher", is positioned above the title.

Comptroller General
of the United States

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ABBREVIATIONS

VA	Veterans Administration
VCS	Veterans Canteen Service

REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Veterans Canteen Service's (VCS's) financial statements for the year ended September 30, 1983, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- financial reporting,
- personnel and payroll,
- procurement,
- property,
- sales, and
- treasury.

Our study included all of the control categories listed above except that we did not evaluate the accounting controls over financial reporting because it was more efficient to expand our substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on VCS's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

VCS's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on VCS's system of internal accounting control taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined VCS's financial statements for the year ended September 30, 1983. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the VCS complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected VCS's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that VCS was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

VETERANS CANTEEN SERVICE STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1983 AND 1982 (notes 1 and 2)

	<u>1983</u>	<u>1982</u> (Unaudited)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash:		
Cash in U.S. Treasury (note 3)	\$18,648,148	\$15,774,675
Cash in banks and on hand	<u>7,083,436</u>	<u>4,623,697</u>
Total cash	25,731,584	20,398,372
Accounts receivable, principally from Veterans Administration (VA)	1,374,725	2,529,465
Inventories (note 4)	23,042,017	21,966,885
Other assets	<u>15,803</u>	<u>37,702</u>
Total current assets	<u>50,164,129</u>	<u>44,932,424</u>
FIXED ASSETS:		
Furniture, fixtures, and equipment	23,446,087	22,600,112
Less accumulated depreciation	<u>10,491,045</u>	<u>10,188,989</u>
Net furniture, fixtures, and equipment	<u>12,955,042</u>	<u>12,411,123</u>
Total assets	<u>\$63,119,171</u>	<u>\$57,343,547</u>
<u>LIABILITIES AND EQUITY OF U.S. GOVERNMENT</u>		
CURRENT LIABILITIES:		
Accounts payable:		
Trade creditors	\$ 9,995,086	\$ 9,185,409
U.S. government agencies	<u>1,104,746</u>	<u>1,245,031</u>
	11,099,832	10,430,440
Employees' accrued annual leave	3,122,151	2,877,913
Accrued salaries and wages	1,520,127	1,357,298
Due other U.S. government agencies for employee benefits, employee compensation, and payroll processing expenses	1,733,805	570,236
Unredeemed merchandise coupons	<u>420,606</u>	<u>505,806</u>
Total current liabilities	<u>17,896,521</u>	<u>15,741,693</u>
EQUITY OF U.S. GOVERNMENT (note 5):		
Appropriated capital funds advanced	4,965,000	4,965,000
Donations of property principally from VA	383,081	376,461
Retained Earnings	<u>39,874,569</u>	<u>36,260,393</u>
Equity of U.S. government	<u>45,222,650</u>	<u>41,601,854</u>
Total liabilities and equity of U.S. government	<u>\$63,119,171</u>	<u>\$57,343,547</u>

The accompanying notes are an integral part of these financial statements.

VETERANS CANTEEN SERVICE STATEMENT OF OPERATIONS
FOR THE YEARS ENDING SEPTEMBER 30, 1983 AND 1982
 (notes 1 and 2)

	<u>1983</u>	<u>1982</u> (Unaudited)
SALES	\$161,566,557	\$153,225,337
Less cost of sales	<u>100,449,637</u>	<u>94,230,627</u>
GROSS INCOME	61,116,920	58,994,710
VENDED FOOD, BEVERAGE AND MUSIC MACHINE INCOME (note 6)	<u>3,686,494</u>	<u>3,413,541</u>
Total gross income	<u>64,803,414</u>	<u>62,408,251</u>
OPERATING EXPENSES (note 7):		
Salaries and wages	38,667,207	36,746,902
Supplies	3,994,632	3,795,906
Repairs	617,445	424,416
Depreciation	1,605,401	1,527,315
Occupancy	2,694,476	5,888,384
Employee benefits	5,199,511	4,213,995
Miscellaneous	<u>723,838</u>	<u>550,920</u>
Total operating expenses	<u>53,502,510</u>	<u>53,147,838</u>
TOTAL OPERATING INCOME	<u>11,300,904</u>	<u>9,260,413</u>
ADMINISTRATIVE EXPENSES:		
Salaries and wages	4,214,722	4,126,921
Travel	1,165,637	832,723
Other expenses	<u>2,122,715</u>	<u>1,524,776</u>
Total administrative expenses	<u>7,503,074</u>	<u>6,484,420</u>
NET OPERATING INCOME	3,797,830	2,775,993
OTHER INCOME:		
Gain or (loss) on disposition of fixed assets	(381,422)	(109,904)
Miscellaneous income	<u>197,768</u>	<u>71,196</u>
NET INCOME	3,614,176	2,737,285
Retained earnings, beginning of year	<u>36,260,393</u>	<u>33,523,108</u>
Retained earnings, end of year	<u>\$ 39,874,569</u>	<u>\$ 36,260,393</u>

The accompanying notes are an integral part of these financial statements.

VETERANS CANTEEN SERVICE STATEMENT OF CHANGES
IN FINANCIAL POSITION FOR FISCAL YEARS
ENDED SEPTEMBER 30, 1983 AND 1982 (notes 1 and 2)

	<u>1983</u>	<u>1982</u> (Unaudited)
FUNDS PROVIDED BY:		
Net Income	\$3,614,176	\$2,737,285
Add expenses not requiring working capital:		
Depreciation	1,651,884	1,575,912
Other	424,343	137,956
Total funds provided	<u>5,690,403</u>	<u>4,451,153</u>
FUNDS APPLIED TO:		
Additions to fixed assets	<u>2,613,526</u>	<u>1,588,622</u>
INCREASE IN WORKING CAPITAL	<u>\$3,076,877</u>	<u>\$2,862,531</u>

CHANGES IN WORKING CAPITAL

	<u>1983</u>	<u>1982</u> (Unaudited)
Increase (Decrease)		
CURRENT ASSETS:		
Cash	\$5,333,212	\$(1,927,637)
Accounts receivable	(1,154,739)	1,102,667
Inventories	1,075,131	3,063,524
Other assets	<u>(21,898)</u>	<u>15,933</u>
Total current assets	<u>5,231,706</u>	<u>2,254,487</u>
CURRENT LIABILITIES:		
Accounts payable	669,392	(1,060,183)
Employees accrued annual leave	244,238	93,558
Accrued salaries and wages	162,829	138,576
Due other U.S. government agencies	1,163,569	101,062
Unredeemed merchandise coupons	<u>(85,199)</u>	<u>118,943</u>
Total current liabilities	<u>2,154,829</u>	<u>(608,044)</u>
INCREASE IN WORKING CAPITAL	<u>\$3,076,877</u>	<u>\$2,862,531</u>

The accompanying notes are an integral part of these financial statements.

VETERANS CANTINE SERVICE STATEMENT
OF DEPARTMENTAL OPERATIONS FOR FISCAL YEARS
ENDED SEPTEMBER 30, 1983 AND 1982 (notes 1 and 2)

	<u>Retail department</u>		<u>Food department</u>		<u>Service department</u>	
	<u>1983</u>	<u>1982</u> (Unaudited)	<u>1983</u>	<u>1982</u> (Unaudited)	<u>1983</u>	<u>1982</u> (Unaudited)
SALES	\$105,998,479	\$100,480,853	\$50,897,002	\$48,199,514	\$4,671,075	\$4,544,970
Less cost of sales	79,873,324	75,483,267	<u>19,325,557</u>	17,517,745	1,250,755	<u>1,229,615</u>
Gross income	26,125,155	24,997,586	31,571,445	30,681,769	3,420,320	3,315,355
VENDED FOOD, BEVERAGE, AND MUSIC MACHINE INCOME	-	-	<u>3,685,611</u>	3,411,445	882	<u>2,097</u>
Total income	26,125,155	24,997,586	35,257,056	34,093,214	3,421,202	3,317,452
OPERATING EXPENSES:						
Salaries and wages	15,894,978	15,090,142	20,276,363	19,234,001	2,495,866	2,422,758
Supplies	489,740	399,809	3,463,451	3,356,391	41,441	39,706
Repairs	235,610	130,353	380,814	292,124	1,022	1,939
Depreciation	353,818	314,837	1,217,316	1,179,492	34,267	32,986
Occupancy	1,643,464	1,316,906	980,666	4,387,873	70,346	183,605
Employee benefits	2,053,852	1,661,142	2,777,025	2,238,102	368,634	314,751
Miscellaneous	295,676	<u>210,313</u>	420,844	326,364	<u>7,316</u>	14,245
Total operating expenses	<u>20,967,138</u>	19,123,502	29,516,479	31,014,347	3,018,892	3,009,990
TOTAL OPERATING INCOME	\$ 5,158,017	\$ 5,874,084	\$ 5,740,577	\$ 3,078,867	\$ 402,310	\$ 307,462

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS1. Organization

VCS, which is part of the Veterans Administration (VA), was created on August 7, 1946, under authority of Public Law 79-636 (38 U.S.C. 4201 et seq.), to provide at reasonable prices merchandise and services to veterans in VA medical centers and residential facilities. Under this law, the administrator of veterans affairs is authorized to establish canteens at VA medical centers and at other facilities where essential services are not reasonably available from outside sources.

Canteens typically include retail stores, cafeterias, barber shops, and vending rooms. They also provide additional services, such as dry cleaning and laundry. During fiscal year 1983, VCS operated 170 canteens in VA medical centers and residential facilities located throughout the United States and Puerto Rico. During the year no canteens were closed and no new canteens opened.

2. Summary of Significant Accounting Policies

Inventory -- Retail merchandise inventories are recorded at cost, after conversion from retail value by application of individual canteen departmental cost percentages under the retail inventory method of accounting. Food inventories are recorded at cost under the first-in-first-out method of accounting. Service department inventories are recorded at cost, after conversion from retail value by application of individual types of activities cost percentages under the retail inventory method of accounting.

Fixed assets -- Consist of furniture, fixtures, and equipment which are stated at cost, with the exception of donated equipment which is stated at appraised value at the time of acquisition. Depreciation is computed on a straight-line basis at an annual composite rate of 8-1/3 percent. (See note 6 regarding space provided by VA to VCS.)

Pensions -- VCS employees are covered by the Civil Service Retirement and Disability Fund. Consequently, VCS has the responsibility for withholding 7 percent of each employee's salary and for contributing a matching amount to the plan. VCS's matching amounts were \$2,902,916 and \$2,767,259 in 1983 and 1982, respectively.

3. Cash

Cash in the Treasury includes cash transferred to a VA Treasury account for subsequent payment of accrued VCS payroll and related benefits. This amounted to \$4,248,359 and \$2,598,147 at September 30, 1983 and 1982, respectively.

4. Inventory

Inventory at September 30, 1983 and 1982 consisted of the following:

	<u>1983</u>	<u>1982</u>
Retail department	\$21,715,273	\$20,708,846
Food department	1,299,537	1,234,473
Service department	<u>27,207</u>	<u>23,566</u>
Total inventory	<u>\$23,042,017</u>	<u>\$21,966,885</u>

5. Equity of U.S. Government

38 U.S.C. 4204 provides that funds be appropriated from the U.S. Treasury and deposited in a revolving fund in the amounts needed to finance VCS's establishment, maintenance, and operation. During fiscal years 1947 and 1948, \$4,965,000 was appropriated from the U.S. Treasury. Since that time, no additional funds have been appropriated.

The authorizing legislation provides that any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing fiscal year be deposited into the U.S. Treasury as miscellaneous receipts. Excess funds are determined by considering cash and receivables less current liabilities and undelivered orders. Available funds are further reduced by encumbered cash in local depositories used by the field offices and canteens, by change and petty cash funds on hand, and by cash advanced to VA for payroll purposes.

In fiscal year 1950, VCS began returning its excess funds to the U.S. Treasury and continued this practice periodically through fiscal year 1969 when the last transfer was made. Through September 30, 1983, cumulative net income of \$51,942,655 was earned, of which \$12,068,086 has been returned to the Treasury, leaving retained earnings of \$39,874,569. No excess funds were returned to the Treasury in 1982 or 1983.

6. Vended Food and Beverage Income

Vended food and beverage income resulted from sales of \$17,971,139 and \$17,046,366 in fiscal years 1983 and 1982, respectively, less costs incurred by the vending contractors who provide the services.

7. Related Parties

Under 38 U.S.C. 75 the VA administrator is directed to:

--Furnish VCS with the necessary space, buildings, and structures and provide normal maintenance and repair

service. Reasonable charges, which the administrator determines, are paid annually by VCS, except that the administrator may reduce or waive these charges whenever payment would impair the working capital required by VCS.

- Furnish VCS with the services and utilities, including light, water, and heat, that are available and necessary for its use. Reasonable charges are paid by VCS for these utilities.
- Employ those persons necessary to establish, maintain, and operate VCS, and pay the salaries, wages, and expenses of all such employees from VCS's funds.

Before fiscal year 1983, support charges determined in accordance with VA prescribed procedures were billed to VCS. Such procedures included rental reimbursement for space, based on original acquisition cost of the occupied building, prorated to VCS on a gross square footage basis and amortized over an established life expectancy of the building. It also included monthly utility charges, based on meter readings or equipment used by VCS, and monthly laundry charges, based on actual services provided. In addition to those reimbursements calculated by the VA medical centers, VCS reimbursed VA for normal maintenance and repair, telecommunications, printing and reproduction, postage, and computer system expenses.

On October 1, 1982, VA changed the method VCS uses to reimburse VA for space, utilities, maintenance, and occupancy charges in order to keep VCS's reimbursement at the same rate paid by General Services Administration food-service contractors. Effective that date, VA began billing VCS for occupancy charges on the basis of 1 1/2 percent of VCS sales. In addition, it informed all field activities, on November 18, 1982, to discontinue charging VCS for laundry service because VA's administrative burden was excessive for the amount involved (\$71,300 in fiscal year 1982). VCS continues to pay VA for telecommunications, postage, printing, and PAID system expenses.

VA's Office of the Inspector General reviewed selected financial and compliance aspects of VCS operations for the periods ending September 30, 1977, through September 30, 1982. It determined that additional unbilled charges of nearly \$5.8 million could reasonably be related to VCS operations during fiscal year 1982 and that during fiscal year 1983, under the new 1 1/2 percent of sales method, unbilled charges will be approximately \$9.5 million.

The VA Medical Director said the new formula which was used for the first time in fiscal year 1983, was created after in-depth studies and reviews by VA to develop a formula which was reasonable, customary, and appropriate. The VA Medical Director has also stated that the law, 38 U.S.C. 4202, provides for recovery of reasonable charges as determined by the VA administrator. The law does not mandate full-cost recovery in every

circumstance and the Congress has provided a mechanism for avoiding deficits. The VA Medical Director also said that the assumed unreimbursed cost of \$5.8 million in fiscal year 1982 is \$3 million in excess of VCS's fiscal year 1982 net income and, if these charges were billed, a deficit would result.

We note that the statute specifically authorizes the administrator to reduce or waive the reasonable charges that VCS would otherwise have to pay for the space, buildings, and facilities furnished to it if the payment of such charges would impair the working capital VCS required. Our review did not include an analysis of whether or not the new method used by VA to determine the reasonable charges to be paid by VCS fully reimbursed VA for the cost of providing such facilities and services to VCS.

VCS occupancy expenses paid in fiscal year 1983 totaled \$2,694,476, a decrease of \$3,193,909 from 1982 charges of \$5,888,385.

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